



## Economics in the Headlines

### STUDENT'S VERSION

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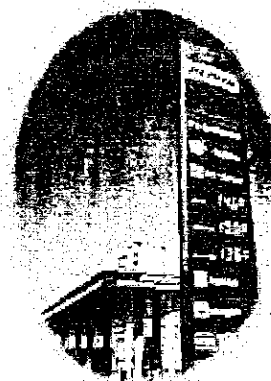
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### INTRODUCTION

Why did the price of gas suddenly go up last week? What prompted the local shoe store to have a sale? Why are scalpers able to charge prices so much higher than those printed on the concert tickets? Supply and demand are at work in our everyday lives, causing changes in prices and quantities sold, and affecting our decisions about what to buy.

### TASK

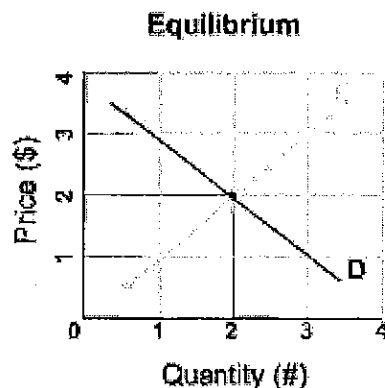
In this lesson, you will first examine the factors that change supply and demand for products. You will see how changes in supply and demand affect prices and quantities sold. Then you will analyze actual news stories to determine how changes in supply and demand affect prices and output in our economy.



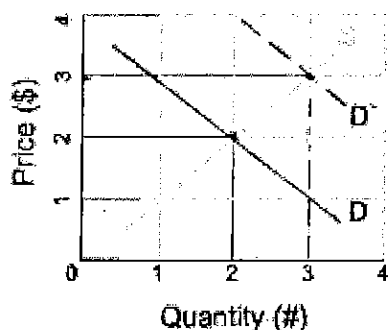
### PROCESS

How can changes in supply and demand affect the prices of the products we buy? Demand is the willingness and ability of a person to buy a product. Demand can be affected by changes in income, changes in desire for a product, expectations about the economy, and changes in the prices of related products. For example, if a substitute product is offered at a lower price, people will demand less of the initial product; if a complement necessary to use the product goes up in price, people will again demand less of the initial product. Supply is the willingness and ability of a supplier to produce a product. Supply can be affected by the number of firms in the industry, the cost of production, productivity, government policy, and natural disasters.

**Equilibrium** is the point at which the supply and demand curves cross; at this point, the quantity demanded and the quantity supplied are equal. The price indicated at that point is the price we see in the market, and the quantity illustrates the amount produced.



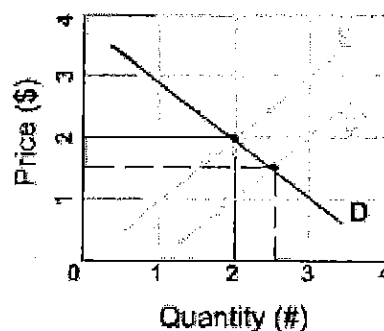
However, in the real world, supply and demand curves are constantly

**Demand Increases**

on the move. People are hired and fired; they receive raises or find their work hours reduced. They tend to reduce their spending if they fear a recession, and they often change their desires for products -- the whole purpose of advertising! Companies face competition and changes in their costs of production, and they must try to improve worker productivity. They must contend with changes in government tax and regulatory policy, and they face the threat of fire and other disasters.

As events unfold, we can predict what will happen to product

prices and output, based on changes in supply and demand. If demand increases (shifts to the right), the equilibrium point changes, as prices rise and the quantity produced rises.

**Supply Increases**

However, if supply increases (shifts to the right), we will find that the price decreases, while quantity produced increases. Decreases in demand and supply will produce the opposite effects.

Now let's translate this theory to real life. First you should print this pdf [worksheet](#) to answer the following questions.

Read each of the summaries of news stories on the pdf worksheet and use the information to complete the pdf worksheet.

**CONCLUSION**

When we understand the dynamics of supply and demand, we can predict the effects of changes on the prices we see and the quantities produced. As a consumer, if you have knowledge of events that can affect product demand, you will be able to act on those expectations to protect yourself against price fluctuations. For example, if you read a news report that the supply of beef is expected to fall and you know that may signal higher prices soon, you could buy additional hamburger now, at lower prices, and freeze it for future use. Or if you saw news reports about an upcoming concert that would lead you to believe the demand for tickets would be much greater than the supply, you would be motivated to get in line for tickets early, rather than waiting to pay the higher prices charged by scalpers. Knowledge of supply and demand can help you to make good decisions as a consumer, to make the most of your hard-earned dollars.

**ASSESSMENT ACTIVITY**

Now it's your turn. Find two articles from among the websites below -- one which would involve a change in supply and one which would involve a change in demand.

- [CNN](#)
- [MSNBC](#)
- [CBS News](#)
- [ABC News](#)

For each article, answer the question on your [worksheet](#).

Name: \_\_\_\_\_

Date: \_\_\_\_\_

### Economics in the Headlines

#### Process:

Read the summary below of an article from MSNBC news, keeping in mind the factors that will change demand or supply for a product. Then answer the questions below.

"McDonald's Uses Dolls to Woo Girls" (summary of MSNBC news online report)

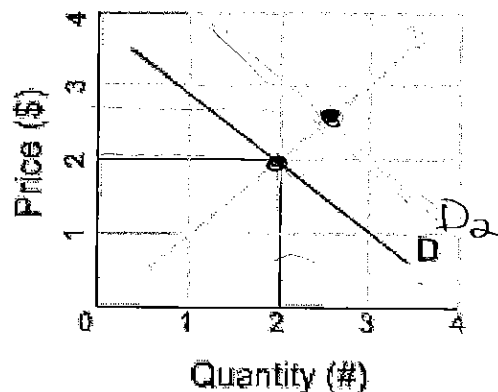
For three weeks in April 2002, McDonald's Corporation incorporated miniature Madame Alexander dolls as toys in the Happy Meals sold to girls. Madame Alexander dolls are collected internationally and are known for their high quality.

The Director of Marketing for McDonald's explained that while young boys and girls eat at McDonald's in comparable numbers, by the ages of 11-12, girls become more weight-conscious and make different food choices, which tend to continue into adulthood. McDonald's hoped that by introducing the dolls, more girls would be enticed to eat at McDonald's, increasing the company's customer base long into the future.

1. Is McDonald's attempting to change the demand for or the supply of Happy Meals? Is McDonald's trying to increase it or decrease it?

McDonald's is attempting to change demand.  
They want to increase it to make more profit.

2. Use the supply and demand curves provided to illustrate the change McDonald's is trying to make.



3. If McDonald's is successful in making this change to attract and keep female customers in the long run, what do you expect to happen to the quantity of Happy Meals produced? What do you think will eventually happen to the price?

I expect McDonald's to increase the supply  
of Happy Meals if they are able to increase  
demand. Therefore, I would expect the price  
to also increase.

Again, read the summary below of an article from MSNBC news, keeping in mind the factors that will change demand or supply for a product. Then answer the questions below.

"Iran Urges Oil Embargo" (summary of CNN news online report)

In early April 2002, Iranian leader Ayatolla Ali Khamenei called on leaders of OPEC nations to place a one-month embargo on oil sold to Western nations. Khamenei said that by cutting off oil, the US and other Western nations would be punished for their support of Israel in the Israeli-Palestinian conflict. Iran is the second-largest producer of oil in the Middle East, and an oil embargo similar to the one OPEC carried out in 1973 could have serious ramifications for economies around the globe.

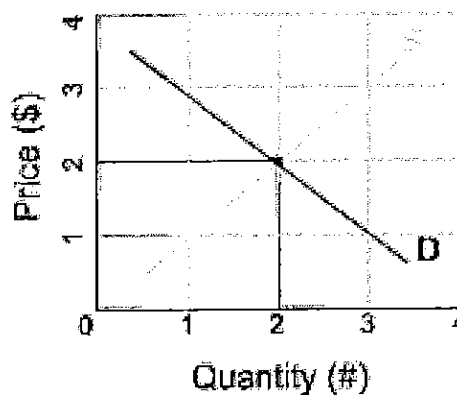
1. Is Iran attempting to change the demand for or the supply of oil in Western nations? Is Iran trying to increase it or decrease it?

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2. Use the supply and demand curves provided to illustrate the change Iran is trying to make.



3. If Iran is successful in convincing oil-producing nations to cut off the supply of oil to Western nations, what do you expect to happen to the quantity of oil available in those nations? What do you think will happen to the price?

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### Evaluation Activity

Title of Article: \_\_\_\_\_

Date of Article: \_\_\_\_\_

Author of Article: \_\_\_\_\_

URL of Article: \_\_\_\_\_

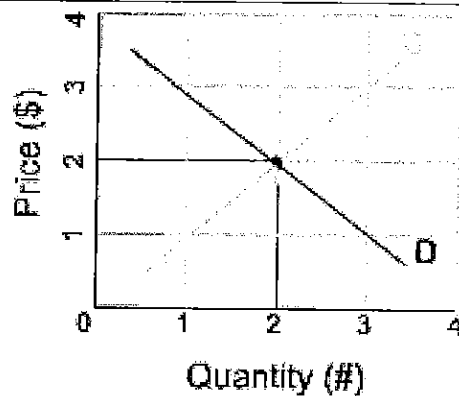
1. Does the article discuss a change in the demand for or the supply of the product? Will demand or supply increase or decrease?

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2. Use the supply and demand curves provided to illustrate the change.



3. When this change occurs, what do you expect to happen to the quantity produced? What do you think will happen to the price?

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Title of Article: \_\_\_\_\_

Date of Article: \_\_\_\_\_

Author of Article: \_\_\_\_\_

URL of Article: \_\_\_\_\_

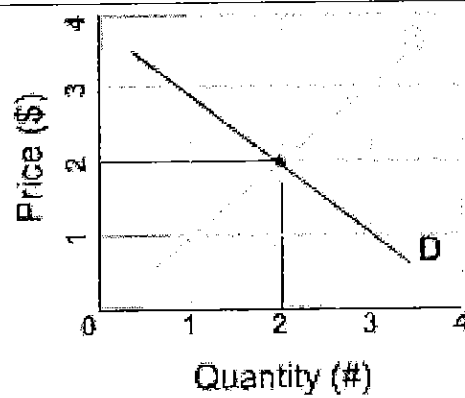
1. Does the article discuss a change in the demand for or the supply of the product? Will demand or supply increase or decrease?

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2. Use the supply and demand curves provided to illustrate the change.



3. When this change occurs, what do you expect to happen to the quantity produced? What do you think will happen to the price?

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# CVS snuffs out tobacco products

02/05/14 10:17 AM

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By Steve Benen (/byline/steve-benen)



Pedestrians walk by a CVS store in San Francisco, Calif., Nov. 5, 2013. Photo by Justin Sullivan/Getty

Last summer, CVS Caremark caused a bit of a stir in political circles when it announced (/rachel-maddow-show/aca-gets-aok-cvs) it would help inform consumers about new choices available through the Affordable Care Act. At the time, a handful of conservative voices talked up a possible boycott in response.

The chain's latest announcement (<http://www.nbcnews.com/health/health-news/so-long-cigs->

vs-pulls-tobacco-products-its-stores-n22156) is arguably even more striking.

*CVS Caremark pharmacies will phase out tobacco in U.S. retail stores by Oct. 1, officials announced Wednesday, saying that selling cigarettes side-by-side with medicine undermines the mission of promoting good health.*

*The chain will lose about \$2 billion in revenues annually from sales of tobacco in its 7,600 stores, but CVS Pharmacy president Helena Foulkes said it just makes sense for a firm now positioning itself as a health care company.*

It was very important to us that, as we're working with doctors and hospital systems and health plans, that they see us as an extension of their services," Foulkes said. "It's virtually impossible to be in the tobacco business when you want to be a health care partner to the health care system."

The White House soon after issued a statement from President Obama, a former smoker himself, applauding the announcement: "As one of the largest retailers and pharmacies in America, CVS Caremark sets a powerful example, and today's decision will help advance my Administration's efforts to reduce tobacco-related deaths, cancer, and heart disease, as well as bring down health care costs – ultimately saving lives and protecting untold numbers of families from pain and heartbreak for years to come."

Sarah Kliff's report (<http://www.washingtonpost.com/blogs/wonkblog/wp/2014/02/05/why-cvs-thinks-it-can-win-big-by-ending-cigarette-sales/>) added that public health advocates hope will the CVS announcement "will become a watershed and pressure other large drug store franchises to follow suit."



And it very well might.



Annie-Rose Strasser made the case (<http://thinkprogress.org/health/2014/02/05/3250011/cvs-smoking-cessation/>) that developments like these matter, whether someone buys tobacco products or not.



*CVS's decision is a big blow to already-struggling tobacco companies. Cigarette sales have been falling nationally, and are largely propped up by retail sales. Rates of smoking are also decreasing, from a high of 42 percent of Americans in the 1960s to just 21 percent of Americans today.*

*But the negative health effects of smoking remain immutable. Smoking has killed over 20 million Americans in the last 50 years. About 400,000 people a year die from*



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## Weather adds to farmers' financial uncertainty

- Story Highlights
- Rob Sellard and his wife, Sylvia, farm 14,000 acres in southwestern Kansas
- High crop prices in recent years have yielded profits for farmers such as the Sellards
- But a lack of rain, falling prices and high planting costs could spell trouble this year

By Aaron Cooper and Sean Caffets  
CNN

**BUCKLIN, Kansas (CNN)** -- Rob Sellard's young wheat field is a stark reminder that no matter how bad the economy, farmers are always at nature's mercy.

"The fact is we don't have any moisture right now, and when we hit some warm days this wheat will deteriorate very rapidly," Sellard told CNN during a visit in March, pointing to places where the green wheat was starting to die from lack of rain.

"Without moisture this wheat is going to continue to die," he said.

Add in the high costs of planting last fall -- the spike in oil prices drove up the price of petroleum-based fertilizers, fuel and chemicals -- and the chances of making a profit this year look bleak.

"Four or five years ago, we were buying \$350 to \$400 a ton fertilizer. This wheat crop here, when we fertilized last August or September, fertilizer was \$1,100," Sellard says.

"Even if we had a decent crop, even if we cut it decently, this wheat crop will be in the red."  Watch as Sellard examines the dry soil »

For generations, the Sellards have farmed near Bucklin, Kansas. Rob and his wife, Sylvia, now farm a whopping 14,000 acres -- nearly 22 square miles.

Recent years have been good to the Sellards and other farmers. 2008 saw record wheat prices, and the Sellards also raise Black Angus cattle -- the ones that make those tasty steaks that corporate execs once spent so lavishly on.

But cattle production, like the economy, is also suffering.  Learn more about what affects farm costs »

"With the fears on Wall Street, people have stopped eating out so much," he says. "Less beef is sold. Foreign countries, they are struggling too because of everything that has happened, so we don't have the exports."

Exports are slowly improving, and farmers such as the Sellards do have the option of hanging on to their prized cattle until prices improve. Likewise, they can sit on their wheat harvest and hope prices go up -- although they'll have to pay to store the grain.

Grain prices are low compared with last season, when record prices helped some farmers make a good profit in Kansas and across the country.

According to the Kansas State University agricultural extension office, Kansas wheat sold for an average of \$10.50 a bushel at its peak in 2008 -- largely a result of changing supply and demand. From 1999 to 2006, the average price was \$3.16 a bushel. As of this week, wheat was selling for \$5.39 a bushel at a local grain elevator in Bucklin, in southwestern Kansas.

Sellard says that despite last year's high prices, not everyone made lots of money.

"You can read all you want, the sensationalism of high prices a year ago," he says. "I don't know of very many people around here who got \$10 or \$11 wheat. In most people's case, when the grain started going up they sold it at \$5, \$6." By the time prices hit \$11, few farmers had any wheat left to sell.

Still, Kelly Estes — president of BTI Inc. Bucklin Tractor & Implement, the local John Deere dealership — has seen farmers with money to spend.

"I think that farmers for the most part up our way, there is no question that net income has increased the last two years significantly to what it was, due to the commodity prices going up to what they did," he says.

Estes has sold out of 2009 model farm equipment, much of which sells for more than a quarter-million dollars. Business has been so good that Estes is looking to hire more employees — and he says the agricultural sector might be one answer to unemployment.

"There is a real opportunity for even city kids that want to come out and work in rural North America," he says. "They are laying people off in the cities that might have opportunities here."

Estes, however, says he does worry about the impact of the economic downturn on rural America as the effects of the recession start to hit home.

"You know it always starts on the East Coast and West Coast and it kind of comes in. By the time it gets here we are hoping that the tidal wave is [reduced to] a ripple effect."

He already has seen sales of used tractors slow. "For us '09 looks good, '08 was fantastic; '10 is a more cautious year for us. There is no question. Just due to what Mother Nature is doing, due to what the economy is doing."

Kraig Lindsay says things also have slowed at the Offerle Cooperative Grain Elevator in Bucklin, which he manages.

"There is less consumption going on, so [the grain is] not going to be moving out of here," he says. Some farmers are waiting, holding onto their grain, hoping for prices to go back up.

So how will farmers and those who rely on them survive?

"We are concerned," Sellard says. "But we hope in the good years we've saved up enough equity that we can go the next year. ... [that] we haven't blown it all in one year."

**All About Agriculture Policy • Recessions and Depressions**

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